Policy Brief

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The Development Disconnect: A decade of cuts and delays

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Overview

Every year as Pakistan inches closer to budget, headlines follow a predictable script: austerity measures, heavier taxes burdening the salaried class, or soaring defense budgets. Lost amidst this is a quieter, yet more important story — that of the neglected development expenditure. At the heart of this tale lies the Public Sector Development Programme (PSDP), intended as the country's engine for growth and essential infrastructure. Despite lofty promises, PSDP allocations almost always follow the same pattern: the government announces a big number to show its pro-people tilt, followed by a cut in outlay soon after.

Numbers in Context

In each of the past years, the PSDP has been the government's go-to line on the chopping block: between FY16 and FY25, the revised allocation for development expenditure was on an average 19.8% lower compared to the originally proposed figure. Meanwhile, more often than not, the overall spending needs overshoot, prompting the center to adjust it upwards.

In FY25, the government had unveiled a much publicized 'record' PKR 1.4 trillion package for federal PSDP, only to cut it weeks later to PKR 1.1 trillion. Of that revised sum, PKR 1.036T has been formally authorized as of May 31, 2025, and only about PKR 596 billion has actually been utilized so far. Now with the FY26 budget looming, all eyes are on how much deeper the axe will fall. The real question isn't just whether the numbers will shrink again, but what this recurring pattern says about Pakistan's true commitment to long-term development and shared prosperity.

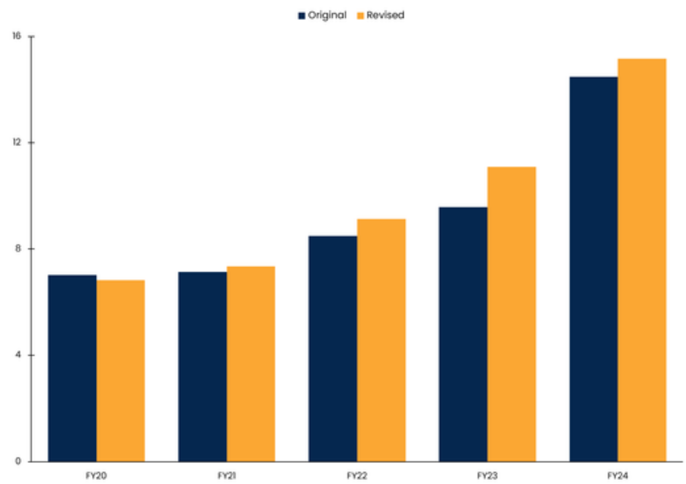
When you put the numbers into perspective, the proposed figure—though over the past ten years the highest—warrants deeper scrutiny. There is a consistent pattern in Pakistan's fiscal management: when budgetary pressures mount, development spending is the first to be curtailed — even as total federal expenditure often rises.

Over the past ten years, total expenditure has been revised upward in seven instances, with an average increase of 3.9%. The consequences of these repeated scale-backs are not trivial. In FY25, the federal government allocated only 4.4% of its total budget to PSDP, down sharply from the peak of 14.8% in FY16. The most significant reason behind this decline has been the explosive growth in interest payments, which in the outgoing year were projected at PKR 9.8 trillion or 51.8% of the overall expenditure. This figure is staggering — it is 4.6 times larger than the next largest line item (defense) and accounts for more than three-quarters of all revenues collected by the Federal Board of Revenue (FBR).

These dynamics underscore a critical challenge for fiscal policy in Pakistan: as debt servicing increasingly crowds out development expenditure, the state's capacity to invest in growth-enhancing infrastructure, services, and human capital continues to erode at rapid pace.

Centre continues to underestimate its budgetary needs

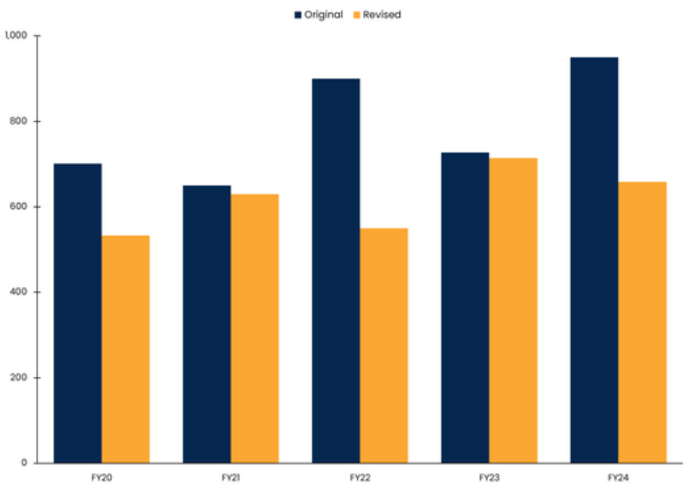
Budget Outlay (in PKR trillions)



Source: Ministry of Finance, Media Reports

...while overpromising its development spending

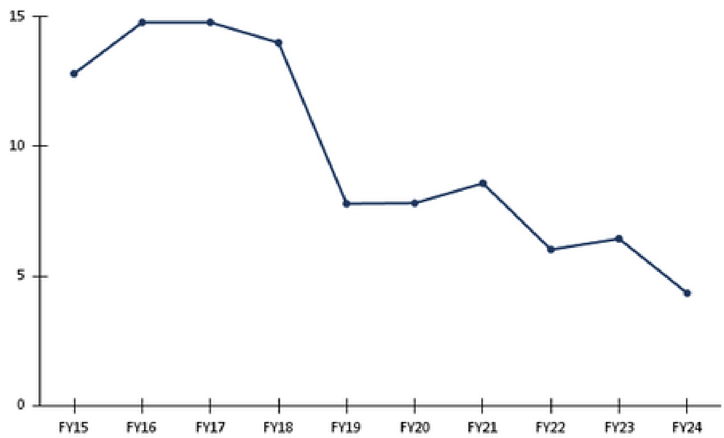
PSDP Outlay (in PKR trillions)



Source: Ministry of Finance, Media Reports

...to a point where its development spending is insignificant

Revised Federal PSDP-to-Federal Budget Outlay (in %)



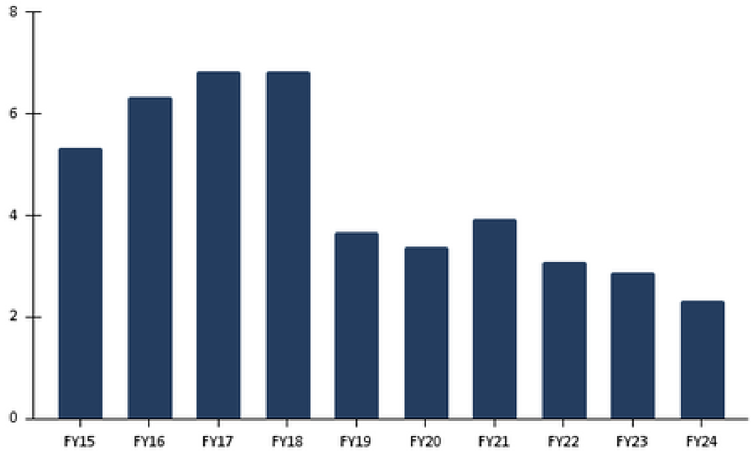
Source: Ministry of Finance

Nominal cuts, real consequences

Building on this fiscal constraint, the revised FY24 allocation of PKR 659 billion is not only lower than the nominal figure recorded in FY16, but it also reflects a significant erosion in real terms. When adjusted for inflation, a cumulative 156% rise in price levels over this period, the true extent of fiscal contraction becomes starkly evident. This decrease is especially concerning considering the cost of most infrastructure projects is heavily influenced by imported materials and equipment, which are priced in foreign currencies. To capture the impact more accurately, we evaluated the PSDP allocation in dollar terms. The results were telling: in FY24, revised federal PSDP budget had shrunk to just $2.3 billion, down 19.2% YoY and less than half of what it was a decade ago.

...and is a third of its peak levels in dollarized terms

Revised Federal PSDP (In Billion $)



Source: Ministry of Finance, State Bank of Pakistan,

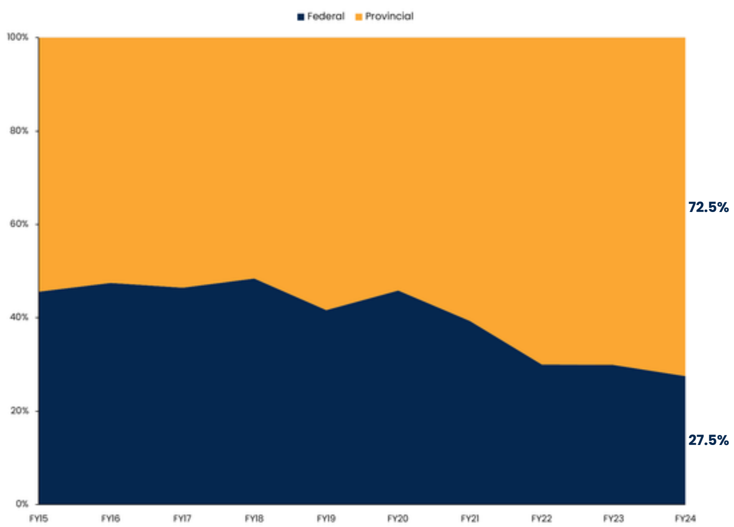
Provinces to the rescue?

Though this plunge is unmistakable, keep in mind that federal PSDP figures tell only half the story. Since the 18th Amendment, provinces have taken the lead on development, consistently dedicating a large share of their own budgets to growth projects, especially on core mandates in education and health where the center has a relatively limited role. Therefore, it's important to look at their contribution as well to understand the direction Pakistan's development has taken. Historically, there was more or less a sense of parity with the center accounting for a little over two-fifths of all development expenditure in the country during FY15. However, the split has changed drastically in recent years and the share of provinces has surged, climbing to 72.5% of the national outlay, or PKR 1.7 T in FY24 while the federal government has taken a backseat.

Yet, the growing participation of provinces hasn't been enough to avert a long-term decline. In dollar terms, national development spending, i.e. the sum of federal and provincial governments, of $8.4B during FY24 still fell short of $14.7B back seen in FY17. Similarly, as a share of gross domestic product, the national PSDP represented merely 2.3%, well below 3.9% in FY15 and what other emerging economies dole out at similar stages of growth. The story's clear: a weakening rupee and persistent budget gaps have slashed the dollar value of PSDP funds. Under IMF pressure and with a volatile currency, even standard projects struggle to move forward. Yet development can't be put on ice forever—will the next push strengthen provincial health and education, or shift toward cash relief for the poorest? With this question looming, we now turn to each ministry's PSDP utilization performance to see who is maximizing scarce resources—and who is falling short.

Provinces have increasingly taken up a larger share of PSDP

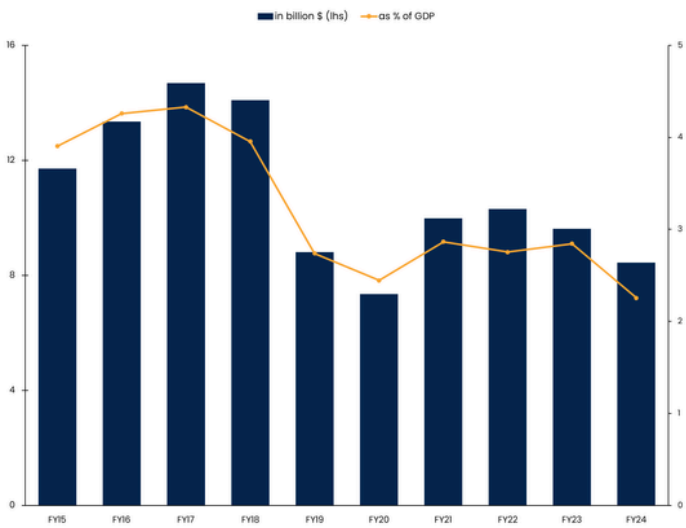
Revised PSDP (% Share of PKR spend)



Source: Ministry of Finance, Provincial Budgets

Provincial contribution not enough to avert real PSDP decline

Revised Federal + Provincial PSDP Outlay



Source: Pakistan Bureau of Statistics, Ministry of Finance, Provincial Budgets, State Bank of Pakistan,

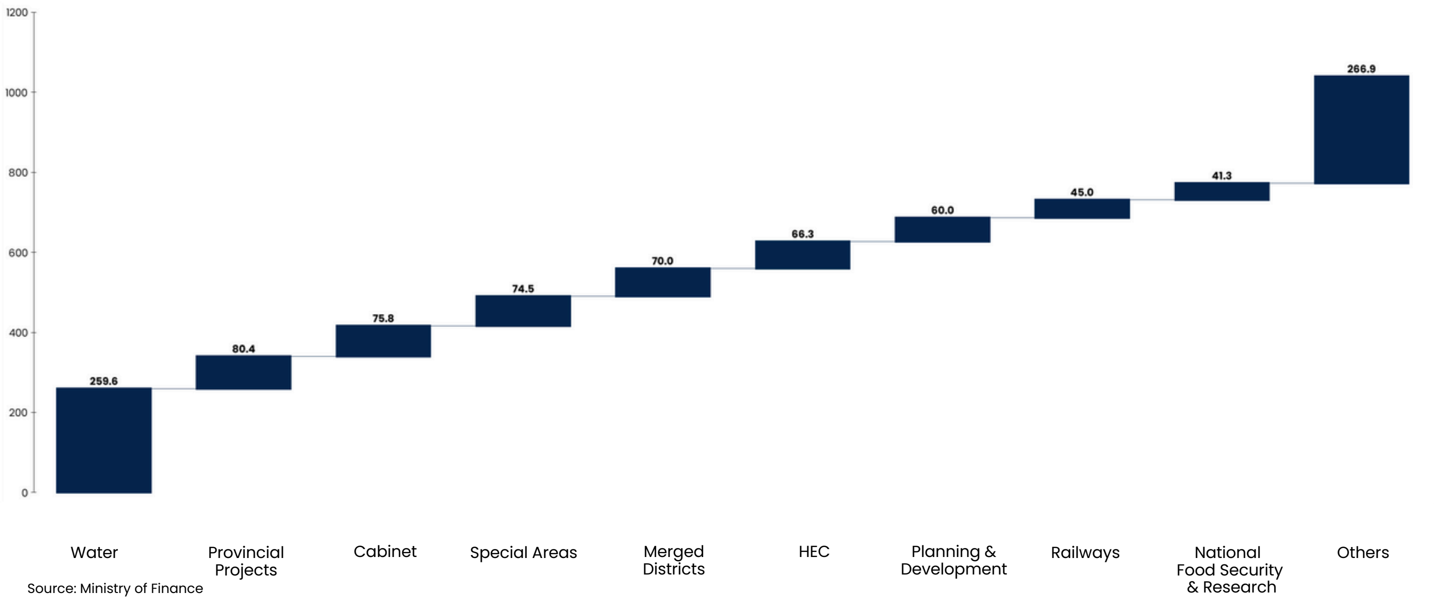
Inside Ministry Budgets

While the federal PSDP has been on a visible decline in real terms and is indicative of a general neglect, looking at the aggregate numbers isn't enough. After all, the allocation process has its own political economy and can depend on a few variables, including but not limited to the composition of the ruling coalition, whether it's an election year or what themes are more favoured by the international development partners. To truly understand the government's development priorities, we looked at the ministerial allocations and found the Water Resources as the single-largest receiver of funds. In FY25, the center had proposed an original outlay of almost PKR 260B for it, increasing by a massive 141% over the previous year and raking in a quarter of all development expenditure. This is understandable considering that some of the biggest projects include large dams, particularly the (in)famous Diamer-Basha.

There was a shake-up for the second place as Provincial Projects, with PKR 80.4B, replaced the Cabinet Division, which saw its allocations decline by 16% to PKR 75.8B in FY24. The remaining two spots were taken up Kashmir & Gilgit Baltistan Division at PKR 74.5B, and Merged Districts of erstwhile Federally Administered Tribal Areas at PKR 70B. This is reflective of the broader effort towards regional development, as three of the five most funded areas fall under this theme.

Water and regional equalization programmes dominate development spending

Ministry-wise Original PSDP Allocation (in PKR billions)



Source: Ministry of Finance

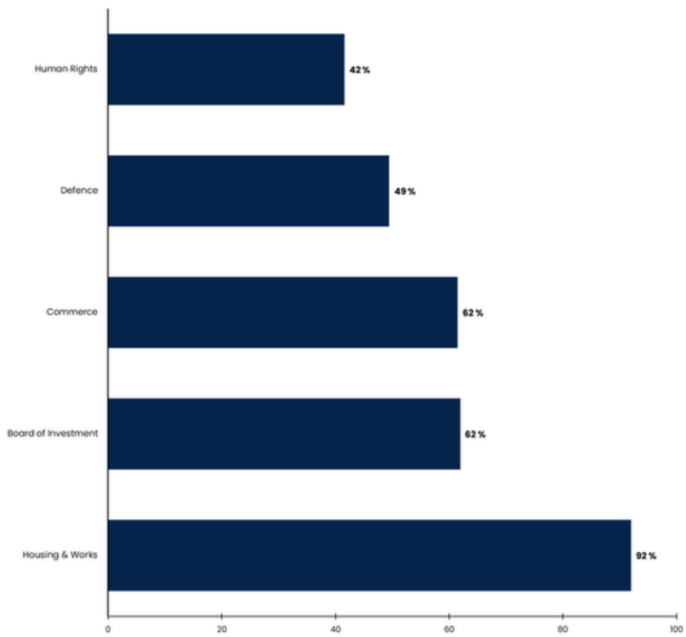
In terms of growth, the trend was slightly mixed. Notably, the Housing & Works Division leads, seeing its PSDP increase at a compound annual growth rate of 93% between FY20 and FY24, as the proposed allocation surged from just PKR 2.9T to PKR 40B, only to recede back to PKR 24.3B during FY25.

The Commerce Division and Board of Investment followed behind in second and third places at 62% each, both benefitting from an extremely low bases of mere PKR 100M back in FY20. Since then, their respective outlays have grown manifold and stood at PKR 2.2B for FY25 in the case of former and PKR 1.2B for the latter. On the other hand, Defence is among the relatively larger divisions within this group, starting FY20 with an allocation of PKR 456M, which ballooned to PKR 3.4B by FY24, before further rising to PKR 5.1B for FY25.

Meanwhile, Human Rights, one of the smallest divisions in the bureacratic setup, also made it to the list. Between FY20 and FY24, it has managed to receive original allocations of PKR 1.7B. of which the latter year alone accounted for almost half. Since then, things have returned to normal as its FY25 outlay declined to PKR 104M. For each of these ministries, the trend will possibly look much different if we take into account the revised amounts instead, that on average were 20% overall.

Small ministries witness high growth amid low base

5-Year Compound Annual Growth Rate (in %)



Source: Planning Commission, Ministry of Finance

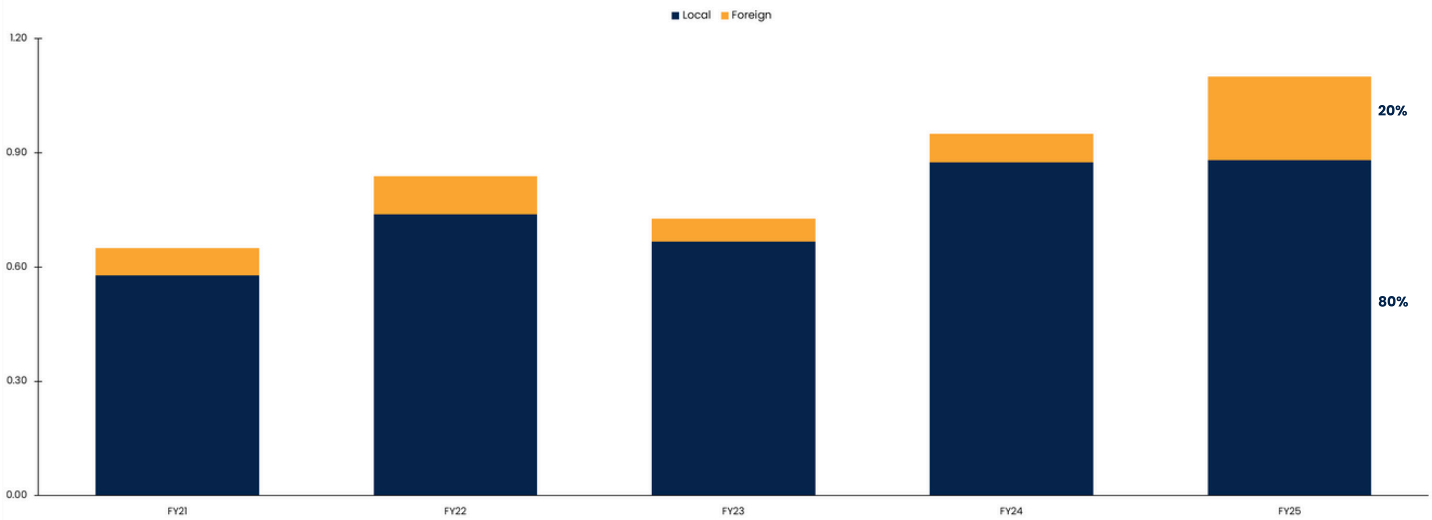
The funding mix

Given the perpetual fiscal constraints, the federal government has often turned towards international partners to meet a portion of its overall budgetary needs, which in FY25 was originally projected to be over 20%. On the other hand, the PSDP has shown more volatility as the projected reliance on foreign currency increased to 20% in the outgoing year, from 11.2% in FY21 and recovering from a low of just 7.9% in FY24. Understandably, this was around when the country was still recovering through arguably its worst macroeconomic episode and the chatter of default on dollar-denominated loans was loud. As a result, the yields were at historic highs, making external capital not only expensive but practically inaccessible. Since that trough, there's been a bounceback with the center expecting foreign component of PSDP to surge by 153%.

A large chunk of this foreign component has typically come from corporations like the National Transmission and Despatch Company and the National Highway Authority. However, in FY25, the allocation for ministries jumped to PKR 133.2B, from just PKR 36.3B the year before. Even notwithstanding this recent jump, some ministries have shown a higher reliance on foreign currency. In this regard, the Maritime Affairs Division tops the list, with the share of external loans in its PSDP allocations averaging 36.29% between FY20 and FY24, reflecting long-term international investment in port infrastructure and logistics, notably linked to CPEC-related coastal projects.

Foreign component in PSDP spikes as Pakistan's country risk stabilizes

Federal PSDP Original Allocation (in PKR Trillions)



Source: Planning Commission

Though only a very recent addition, the States & Frontier Regions Division has also managed to garner some interest from international partners as its entire allocation of PKR 964M in FY24 was proposed to be financed under the multi-year $50 million World Bank-funded Strengthening Institution for Refugee Administration (SIRA) project. Aviation (19.09%), Revenue (17.02%), and Water Resources (14.78%) also rank high, indicating consistent donor involvement in aviation safety, tax system reforms, and large-scale hydropower and irrigation projects respectively — areas aligned with international development partners such as the World Bank and the Asian Development Bank.

By contrast, certain ministries display sharp, yet short-lived, spikes in foreign funding that did not translate into long-term trends. Space & Upper Atmosphere Research Commission, for instance, registered the fifth-highest foreign share in FY24 at 25%, attributable to an exceptional one-year disbursement and marking a clear departure from its historical funding pattern. Similarly, Health, as well as Information Technology, despite notable foreign support in earlier years, failed to sustain that momentum across the five-year window we reviewed. These anomalies highlight the fragmented, event-driven nature of foreign financing in PSDP, where development aid often follows reactive, project-specific cycles rather than stable, strategic partnerships.

A sectoral Lens

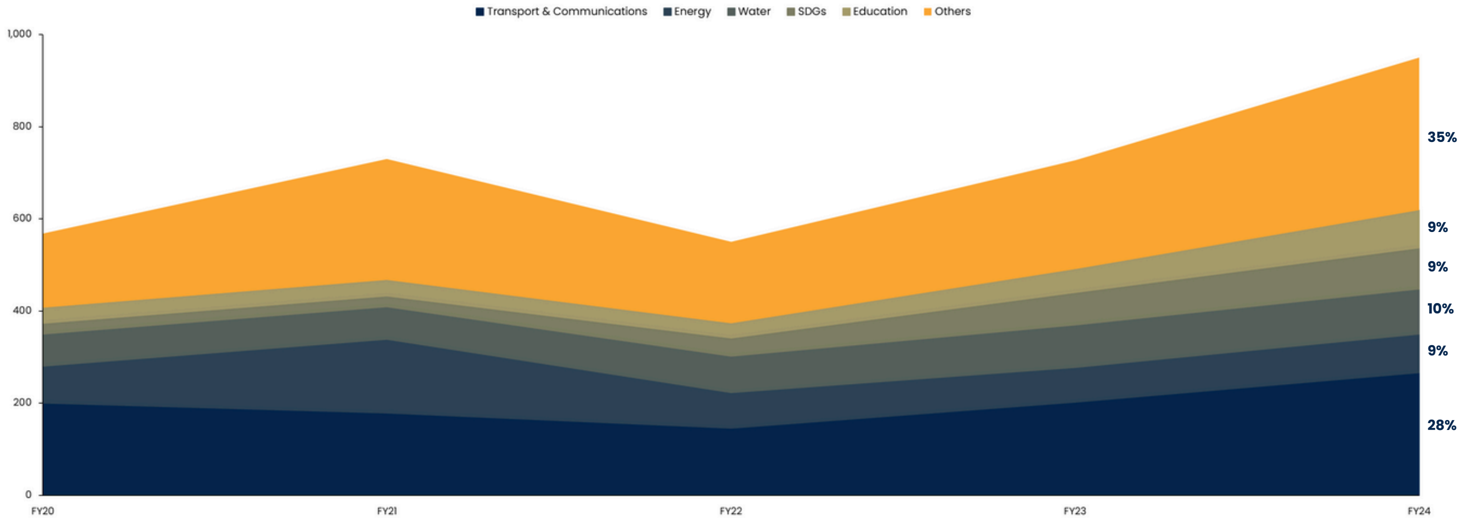
Though ministry-wise allocations are a good barometer for assessing the federation's development spending priorities, this approach is not without its limitations. First, the composition and outlays for specific divisions is often determined by political considerations and second, there are often overlaps in their mandates. For instance, a large number of ongoing projects are linked to construction of buildings. A more standardized way to assess allocations is through a sectoral lens, which takes into account the actual purpose for which the outlay has been set aside. In the broadest sense, around half of all the federal PSDP funds on average have historically been earmarked for infrastructure projects followed by social sector raking in almost a fifth of the proposed outlay.

This is obviously understandable given that its two largest components, health and education, are provincial mandates under the 18th Amendment and are predominantly provisioned for in their respective budgets, thus limiting the center's role. At the subcategory level, Transport has consistently been the most-funded area, receiving just under a trillion rupees in original outlays over the last five years. However, this dominance is waning, as reflected by its share falling by 13 percentage points to 23% by FY24.

During the period under review, Energy comes out in second place though its outlay has hovered around PKR 80B for the most part, except FY21 when the amount was double that. Water is another large component, receiving the second-highest allocation in FY24 alone and accounting for the third-largest share since FY20. In more recent times, SDG initiatives have become a prominent feature of the government's development agenda, as has the public-private partnership and build-operate-transfer programmes. However, these are merely originally proposed allocations, which keep getting slashed as the fiscal pressures mount up and do not necessarily reflect the actual amounts, let alone the expenditures.

Transport & Comms the largest development beneficiary though its dominance is waning

Sector-wise Federal PSDP Original Allocations (in PKR Billions)



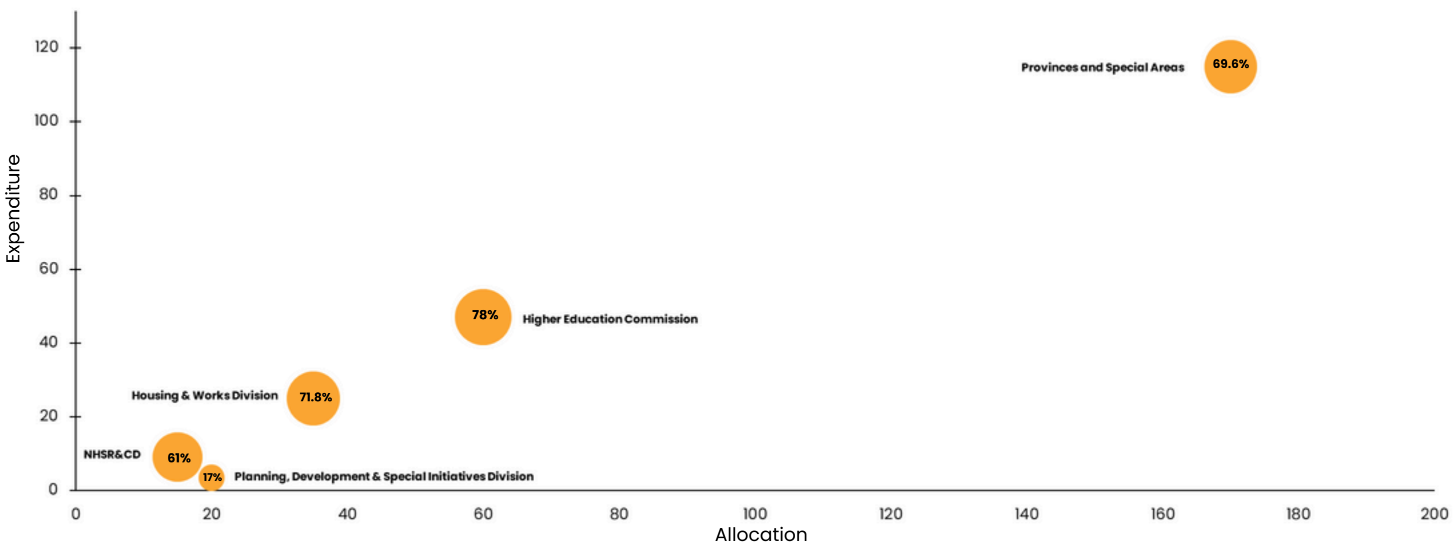
Source: Planning Commission

Beyond Allocations

While the composition of outlay is a much-needed starting point for understanding the government's development spending priorities, it's arguably not a great barometer for a number of reasons. Firstly, PSDP allocations, as a rule, have been consistently slashed shortly after the budget throughout the last five years. Secondly, even the revised amounts are not necessarily disbursed to the relevant ministry. . And when they do, not everything is actually utilized either. Understanding this funnel is important to assess how committed and efficient the federation and its ministries are.

Planning Commission boasts one of the lowest utilization rates among large ministries

In PKR Billions



Source: Planning Commission | Size of circle and labels are based on FY24 Utilization Rate i.e. Expenditure/Allocation

In FY24, around 80% of the originally proposed PSDP funds were authorized and utilized, with wide dispersions between the various ministries. Among divisions or organizations which had an outlay of at least PKR 5B (18), the National Transmission and Despatch Company/Pepco stood out at a utilization rate of over 119%, followed by Railways at almost 100%, and Water Resources (the largest beneficiary in absolute values) near 93%. Ironically, when scrutinizing ministries that received allocations exceeding PKR 10 billion and had below average utilization (below 80%) we found that the Planning, Development & Special Initiatives Division — the poster boy of all development-related activities — had a utilization rate of just 17%.Similarly, Provinces and Special Areas, which combined receive the highest amount, spent just under 70% of the allocations, roughly translating into PKR 50B of unspent funds.

Arguably, a better proxy to measure efficiency in spending funds would be to compare utilization to the authorized amounts. Based on this metric, most major ministries seem to have done rather well in FY24, spending around 90% or more of their authorized development budgets. While the trend was largely the same in the previous year, two ministries stood out for their inefficiency: Information Technology & Telecom, and National Health Services, Regulations & Coordination Division, managing to utilize just 50% and 54% of the authorized funds during FY23. Meanwhile, ministries with allocations below PKR 5 billion — low on the priority list — such as States & Frontier Regions (PKR 48.7 million, 31% utilization) and Maritime Affairs Division (PKR 2.3 billion, 70%) also displayed poor utilization as a share of their authorized funds. The lack of interest in fully utilizing allocated budgets by these less prioritized ministries highlights inefficiencies in resource deployment. A more effective approach would be to compensate those divisions that have a stronger track record of utilization and project completion, ensuring that limited resources translate into tangible progress where it matters most.

Mounting Liabilities

Inadequate allocations coupled with inefficient utilization by the relevant beneficiaries has resulted in mounting throw forward liabilities, estimated to be around PKR 10 billion. This means that if no new projects are added and the rate of outlays remain in line with current levels, it would take over a decade to complete them. According to research by the Pakistan Institute of Development Economics, about one-third of projects remain incomplete beyond their timelines, and cost overruns are widespread.

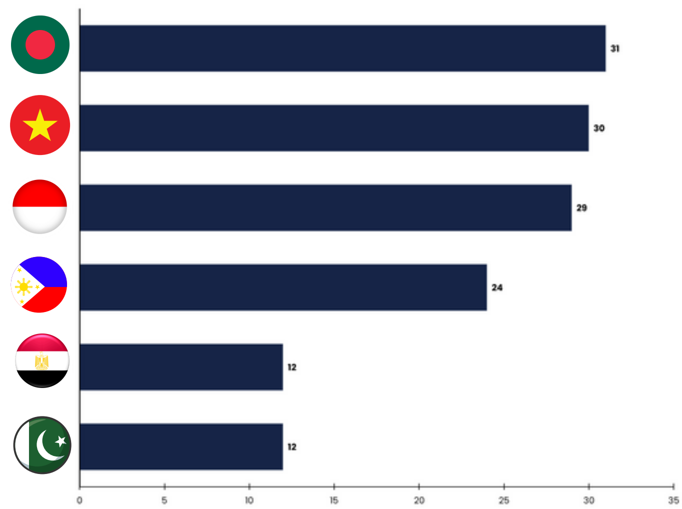
Our analysis of the pipeline shows out of around 1,100 projects, only 18% were new as of FY25 whereas more than four-fifths happened to be ongoing. In the outgoing year, Housing & Works, and the Higher Education Commission were among the most successful divisions based on the number of new schemes at 22 and 21, respectively. On the other hand, among divisions with at least 30 total schemes, Science & Technology had the lowest share of new projects (3%), followed by Water Resources (4%), and Power (6%). This is in line with the Planning Commission's approach of prioritizing the completion of existing programmes rather than further expanding the inventory given the limited finances available.

The economic consequence

This decline in development spending significantly undermines not only the quality of infrastructure but also the broader economic growth prospects of a country. According to the World Bank, inadequate investment in infrastructure leads to deteriorating transport networks, utilities, and social facilities, which in turn raises costs for businesses and limits productivity. This erosion of infrastructure quality reduces the efficiency of economic activities and slows down long-term growth potential, emphasizing that sustained and well-targeted development spending is critical for maintaining infrastructure that supports overall economic expansion.

Pakistan's investment lowest among peers

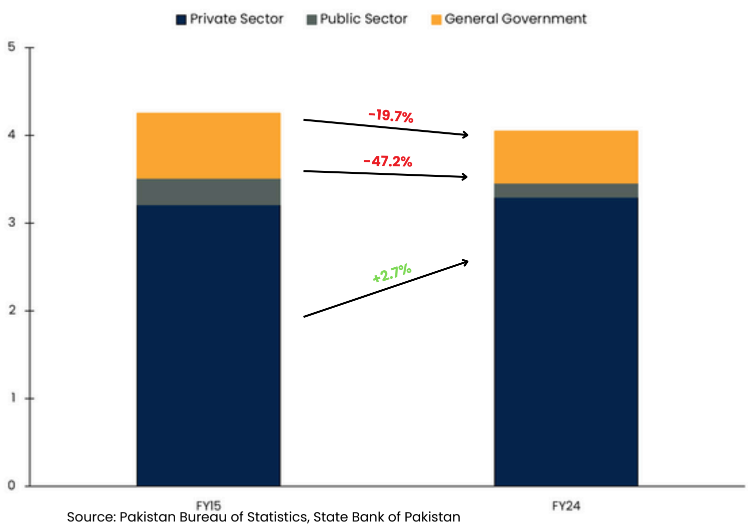
Gross Fixed Capital Formation (as % of GDP)



Source: World Bank | As of 2023

Only private sector investment shows long-term uptick

Real Gross Fixed Capital Formation (in PKR trillions)



Source: Pakistan Bureau of Statistics, State Bank of Pakistan

It can be seen through the GDP equation as well where the country's gross fixed capital formation, or investment, has been sliding downwards after peaking in FY18 and reached its lowest value in a decade. As a share of national output, GFCF stood at just 11.2% in FY24 — the smallest it has been since the start of this millennium. This puts Pakistan at the bottom end of comparable emerging markets, a position it has almost consistently occupied since the 2000s, standing well behind the likes of Bangladesh (31%), Indonesia (29%) or the Philippines (24%).

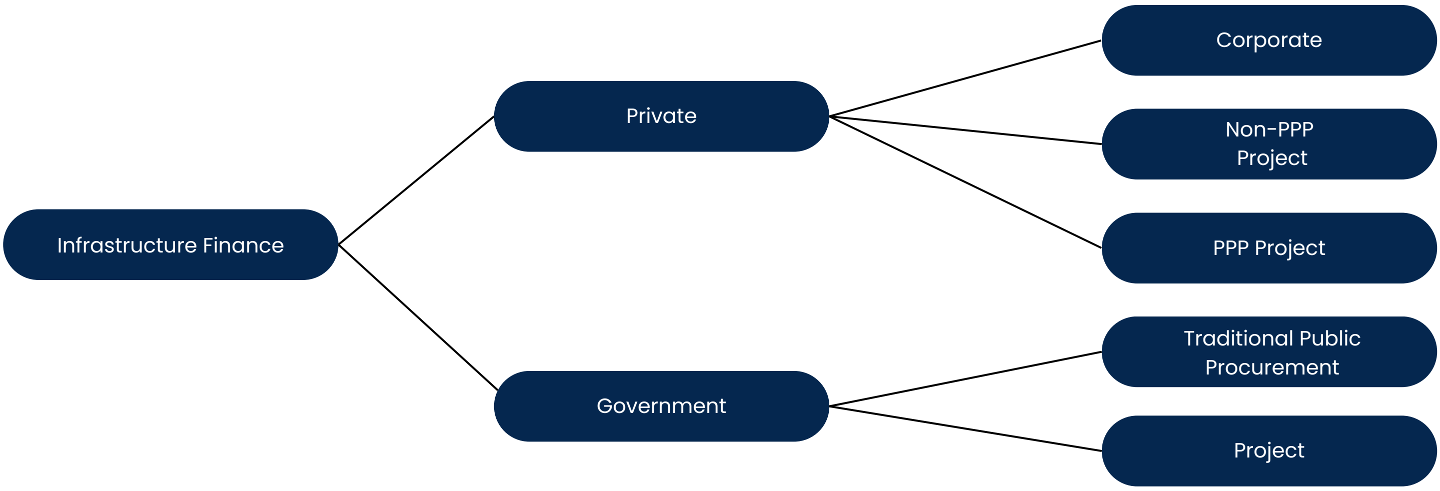
While the issue of capital formation is quite broad-based, considering it has declined at a compound annual rate of 0.5%, the government still manages to come out as a laggard compared to the private sector. In the last decade, the public sector and general government have seen their fixed capital formation fall by 6.2% and 2.2% annually, respectively. The former, in particular, has been hit so hard that FY24 value is not only the lowest in this millennium but also barely a third of 1999-2000 level.

Restarting the development engine

As an emerging economy lagging behind on most social and infrastructure indicators, Pakistan can no longer afford to ignore development spending and needs a serious action plan to address the ongoing crisis while introducing the necessary reforms that govern how projects are planned, financed, and executed.

However, more the will, the question is about financing. Keeping in view the center's limited fiscal space, it's abundantly clear that PSDP will remain afterthought as interest payments eat most of the revenue receipts. In FY25, the government was projected to pay almost PKR 10 trillion for debt servicing, translating into three-fourths of the estimated tax collection, leaving little to pursue other objectives, especially amid IMF conditionalities.

Models of Infrastructure Financing



Source: Wagenvoort et al. (2010).

While there's no doubt about the tightrope, the government needs to actively explore alternative financing models. In this regard, early results suggest that the Public-Private Partnerships can be a viable approach in enhancing the efficiency of infrastructure delivery while sharing risks effectively. There are notable success stories, such as the Lahore-Sialkot Motorway, developed under Build-Operate-Transfer (BOT), by the National Highway Authority and private investors between 2015 and 2017, significantly boosted connectivity and trade efficiency in Punjab without burdening public finances. Similarly, the Rehman Baba Expressway in Khyber Pakhtunkhwa, completed in 2019 through a BOT partnership, improved regional mobility significantly.

Despite this, the uptake of PPPs has been relatively slow with the center allocating under PKR 400B in its original budgetary calculations between FY21 and FY25 and their actual expenditure has been quite varied. In contrast, other emerging economies like India, Bangladesh, and Indonesia have embraced PPPs to close critical infrastructure gaps by tapping private capital and sharing fiscal risk. In India, the Economic Survey 2024–25 notes that as of October 2024, 17 PPP projects worth ₹16,434 crore were completed and 8 more valued at ₹16,614 crore were underway under the PPP model . Bangladesh's Public–Private Partnership Authority lists 81 CCEA/Line-Ministry–approved PPP projects—spanning health, transport, urban development, and energy—as of April 2025 . In Indonesia, the 2023 infrastructure finance outlook reports 31 PPP projects totaling Rp 212.5 trillion in the preparation or transaction stages across water resources, roads, housing, and sanitation . These examples demonstrate how PPP frameworks can mobilize private investment, mitigate public-sector constraints, and accelerate project execution in resource-limited settings. Alongside mobilizing private capital, Pakistan also needs to optimize its PSDP pipeline, including winding down schemes that may be too expensive for the center and prioritizing those which have a higher chance of completion. This could be through rewarding ministries that are closer to realizing their timelines while putting those behind schedule on the backburner. For the sake of our analysis, we used expenditure incurred relative to the total cost of projects undertaken as a proxy to measure this and found that the overall ratio averaged 25% at the start of FY25. Among divisions with at least PKR 100B worth of schemes, Housing and Works is the closest to realization, having spent 48% of the total cost already, followed by Revenue at 41%. In addition to cleaning up the portfolio and reducing the throw-forward liabilities, such an approach can help enhance accountability across governmental bodies.

Moving on from the old paradigm?

Historically, Pakistan's development strategy has revolved around the so-called "Haq model," named after the economist Mahbub ul Haq, who advocated for state-led, large-scale infrastructure and social spending funded primarily through external borrowing. This model emerged during the post-independence era and guided the country's growth policies through the late 20th century, emphasizing heavy investment in roads, dams, and other physical assets.

While it certainly helped build foundational infrastructure, the approach was arguably more suited for a different time — when Pakistan's economy was less complex, and borrowing conditions were favorable. Today, with ballooning debt, rising interest payments, and global economic uncertainties, this approach is no longer viable. The model's heavy focus on physical capital ignores critical modern challenges such as project management inefficiencies, fiscal sustainability, and the need for innovation and private sector participation.

Emerging economies like Vietnam, Indonesia, and Bangladesh are rewriting the rules by focusing on innovation, human capital, digital infrastructure, and public-private collaboration. These countries prioritize efficient project delivery, foster entrepreneurship, and invest heavily in skills and technology to drive sustainable growth. Unlike the old model that fixates on physical assets alone, today's successful strategies balance infrastructure with institutional reforms and private sector partnerships, can offer Pakistan a blueprint to modernize its development agenda and accelerate progress.

Can Uraan Pakistan help development take off?

As Pakistan approaches the FY26 budget, Uraan Pakistan sets forth a transformative strategy: marrying PSDP allocations with measurable development outcomes, reinforcing local governance, and bolstering transparency. This initiative is anchored in the 5Es Framework — Exports, E-Pakistan, Environment, Energy, and Equity — designed to rejuvenate Pakistan's economy, promote sustainable development, and drive inclusive growth. Under the same umbrella, Planning Minister Ahsan Iqbal recently unveiled a development outlay of PKR 17 trillion for the next five years, of which 41% will come federal sources. However, in the near-term, there is an impending decline in federal PSDP with the National Economic Council reportedly approving only PKR 1T on development from the center even as provinces will chip in PKR 2.87T. These allocations appear to mirror Uraan's stated focus — water, infrastructure, and social services — but there are causes of concern: bureaucratic inertia, political fragmentation, and weak implementation mechanisms. Ultimately, the true metric of success lies not in lofty commitments, but in completed projects. Will the FY26 budget shift from rhetoric to results, and can the government ensure PSDP funds are not just allocated, but fully spent on impactful outcomes?

Sources: Pakistan Annual Budget Statements, Pakistan Bureau of Statistics, State Bank of Pakistan, Media Reports.

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